



**NAVAL
POSTGRADUATE
SCHOOL**

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

**Update of the Navy Contract
Writing Guide Phase III:
Creation of Addendum Addressing
DD-1716 Contract Deficiencies**

By: Kevin A. Schlegel

December 2004

Advisors: **E. Cory Yoder**
 Ron B. Tudor

Approved for public release; distribution is unlimited.

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE

Form Approved OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

1. AGENCY USE ONLY (Leave blank)	2. REPORT DATE December 2004	3. REPORT TYPE AND DATES COVERED MBA Professional Report
4. TITLE AND SUBTITLE: Update of the Navy Contract Writing Guide Phase III: Creation of an Addendum Addressing DD-1716 Contract Deficiencies		5. FUNDING NUMBERS
6. AUTHOR(S) Kevin A. Schlegel		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000		8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A		10. SPONSORING / MONITORING AGENCY REPORT NUMBER
11. SUPPLEMENTARY NOTES The views expressed in this report are those of the author(s) and do not reflect the official policy or position of the Department of Defense or the U.S. Government.		
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited.		12b. DISTRIBUTION CODE

13. ABSTRACT (maximum 200 words)

The purpose of this MBA Project is to provide an update of the Navy Contract Writing Guide (NCWG) by creating an addendum that specifically addresses contract deficiencies (i.e., contract errors) and offers some tools to help its users remedy existing contract deficiencies and avoid future contract deficiencies in the writing of contracts. The project was conducted with the sponsorship and assistance of the Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition in conjunction with the Defense Finance and Accounting Service, Columbus, Ohio. The guide was updated in December 2003 and again in June 2004 in an effort to provide organization and clear and concise solutions to current contract issues. This effort is viewed as a continuation of these previous efforts to better the quality and effectiveness of the NCWG. Extensive research, incorporating interviews, websites, and regulations were utilized in creating this addendum to the NCWG.

14. SUBJECT TERMS Contract deficiencies, the DD-1716 contract deficiency report		15. NUMBER OF PAGES 59	
		16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited.

**UPDATE OF THE NAVY CONTRACT WRITING GUIDE PHASE III:
CREATION OF AN ADDENDUM ADDRESSING
DD-1716 CONTRACT DEFICIENCIES**

Kevin A. Schlegel, Major, United States Marine Corps

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
December 2004**

Author:

Kevin A. Schlegel

Approved by:

E. Cory Yoder, Lead Advisor

Ron B. Tudor, Support Advisor

Douglas A. Brook, Dean
Graduate School of Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

**UPDATE OF THE NAVY
CONTRACT WRITING GUIDE PHASE III:
CREATION OF AN ADDENDUM ADDRESSING DD-1716
CONTRACT DEFICIENCIES**

ABSTRACT

The purpose of this MBA Project is to provide an update of the Navy Contract Writing Guide (NCWG) by creating an addendum that specifically addresses contract deficiencies (i.e., contract errors) and offers some tools to help its users remedy existing contract deficiencies and avoid future contract deficiencies in the writing of contracts. The project was conducted with the sponsorship and assistance of the Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition in conjunction with the Defense Finance and Accounting Service, Columbus, Ohio. The guide was updated in December 2003 and again in June 2004 in an effort to provide organization and clear and concise solutions to current contract issues. This effort is viewed as a continuation of these previous efforts to better the quality and effectiveness of the NCWG. Extensive research, incorporating interviews, websites, and regulations were utilized in creating this addendum to the NCWG.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. BACKGROUND	3
A. INTRODUCTION.....	3
B. SPS AND NAFI.....	3
C. THE DD-1716 DEFICIENCY REPORT	4
II. RESEARCH METHODS.....	7
A. OBJECTIVE	7
B. RESEARCH QUESTIONS	7
1. Primary Research Question	7
2. Secondary Research Questions.....	8
C. SCOPE AND ORGANIZATION	8
D. METHODOLOGY	9
E. DATA ANALYSIS	10
III. FINDINGS AND RECOMMENDATIONS	11
A. LEADING CONTRACT DEFICIENCIES	11
B. CAUSES OF CONTRACT DEFICIENCIES	14
C. RECOMMENDATIONS.....	14
1. Specific Recommendations.....	14
2. General Recommendations	15
3. Future Research	16
IV. ADDENDUM TO THE NAVY CONTRACT WRITING GUIDE	
ADDRESSING CONTRACT DEFICIENCIES	19
OVERVIEW: DD-1716 DEFICIENCY REPORTING.....	19
ERROR CODE: B10A.....	21
<i>LONG LINE OF ACCOUNTING INVALID</i>	<i>21</i>
ERROR CODE: AAA.....	25
<i>CONTRACT AND SUPPORTING DOCUMENTS ARE LATE</i>	<i>25</i>
ERROR CODE: B1A.....	27
<i>CLINS/SUBCLINS/ELINS Not Structured IAW DFARS 204.....</i>	<i>27</i>
ERROR CODE: B4C.....	33
<i>CONTRACTORS NAME/ADDRESS CONFLICT WITH CAGE DATA</i>	<i>33</i>
ERROR CODE: BBB	37
<i>CONTRACT AND SUPPORTING DOCUMENTS WITH MISSING PAGE(S)</i>	<i>37</i>
OTHER LEADING ERROR CODES	39
LIST OF REFERENCES	41
INITIAL DISTRIBUTION LIST	43

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF FIGURES

Figure 1.	Top Ten Deficiency Codes	11
Figure 2.	Top Five Deficiency Codes	13

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 1.	Contract Deficiency Data.....	12
----------	-------------------------------	----

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGMENTS

The author would like to thank several individuals and organizations for their assistance in completing this project. Mr. Bruce Lowery (ASN RDA), Ms. Nancy Shacklock (DFAS Columbus), Mr. Harry Velasquez (BearingPoint Corporation), Ms. Ramona Jones (DFAS Columbus), Mr. Dave Radabaugh (DFAS Applications Branch), and Ms. Roseann Hurst (DFAS) were all extremely helpful in providing research information, interview subjects, and background information. I would also extend my deepest appreciation to the project advisors Cory Yoder and Ron Tudor for the insight, direction, and guidance they have provided.

THIS PAGE INTENTIONALLY LEFT BLANK

EXECUTIVE SUMMARY

The purpose of this MBA Project is to provide an update to the Navy Contract Writing Guide (NCWG). This update is in the form of an addendum to the guide that deals with the problem of contract errors, known as *deficiencies*. Upon discovering a contract deficiency, clerks at the Defense Finance and Accounting Service (DFAS) bring the problem to the attention of contracting professionals by issuing an electronic notification, known as a DD-1716 deficiency report. This DD-1716 deficiency report is intended to highlight the contract in question so that the deficiency might be remedied in order to continue the administrative processing of the contract.

Administrative processing delays of contracts often lead to delayed payments to commercial vendors. Each year the Defense Department incurs many millions of dollars in Prompt Payment interest charges, much of which is caused by contract deficiencies. In fiscal year 2003, for instance, the U.S. Navy spent nearly \$3.2 million in Prompt Pay interest. Leaders in the Department of Defense rightly view these charges as wasteful and avoidable. The Assistant Secretary of the Navy conceived this project for Research, Development, and Acquisitions for the explicit purpose of reducing the occurrence of contract deficiencies in the Navy and Marine Corps contracting community.

To this aim, extensive research on the leading contract deficiencies was conducted. It was determined that over 57% of all deficiencies are caused by just five general types of deficiencies and that over 72% of all contract deficiencies are attributable to the ten leading deficiencies. Further, the leading cause of contract deficiencies, *long line of accounting invalid*, constitutes 27% of all contract deficiencies. The data was also able to yield specific sub-causes for each of the top ten general types of deficiencies. The addendum to the NCWG created as a result of this work addresses these specific sub-causes and provides practical solutions in a “user-friendly” format. Many larger issues that may contribute to the occurrence of contract deficiencies were uncovered in researching this work and are detailed herein. However, it was not the chief objective of this work to address these larger issues, but rather to create a practical addendum to the NCWG that could be quickly incorporated and used immediately by

contract professionals responsible for writing contracts. It is hoped that this addendum will be of value to the contracting professional and will be an effective component in achieving reductions in the overall number of contract deficiencies experienced in the Navy and Marine Corps. Furthermore, it is hoped that these reductions in contract deficiencies can help lessen the annual burden of Prompt Payment interest and facilitate contract administration and closeout.

I. BACKGROUND

A. INTRODUCTION

This work is intended to address the leading errors experienced by the Navy and Marine Corps contracting communities in the writing of contracts. These errors, or *contract deficiencies*, frequently result in administrative processing delays of contracts. These delays often result in contractors not receiving timely payment for services or products – a problem that incurs additional costs for the government in the form of Prompt Payment interest charges. The Prompt Payment rule ensures that federal agencies pay commercial vendors in a timely manner by assessing late interest penalties against agencies that pay vendors after a payment due date. In 2003, the U.S. Navy alone paid nearly \$3.2 million in the form of Prompt Payment interest charges as a direct result of these delayed contractor payments (Shacklock, 2004),¹ while at the same time considerable resources (personnel, time, and capital) are expended in addressing this problem of contract deficiencies – a point made more pronounced considering the current resource-strained environment in the Department of Defense (DOD).

B. SPS AND NAFI

Mention is made throughout this work of both the Standard Procurement System (SPS) and the Navy Air Force Initiative (NAFI) database. The following section provides brief descriptions of these systems.

SPS is an automated, software-based system intended to perform contract-management-related functions for all DOD organizations (GAO, 2003). SPS was originally intended to replace 76 procurement systems and manual processes in a move toward a “paperless” contracting process in defense procurement. While the system has not fully achieved the goals stated in its Mission Needs Statement, it currently serves over 40,000 users at over 1,000 sites and is the standard method used for the input of contracts by contracting offices (DOD IG, 2001).

NAFI is a web-based contract management system used by the U.S. Navy, Marines, Air Force, and Coast Guard to facilitate the contract administration and payment process at the DFAS level. NAFI interfaces directly with SPS. As files (including contracts and supporting documents) are input into SPS they are automatically posted to the NAFI database where they are centrally stored so that they can be accessed and distributed by the system's users. Bearing Point Corporation stood up the system in 1998. It is a web-based system with more than 40,000 registered users and is maintained by the Deputy Assistant Secretary of the Navy, Acquisitions (Huff, 2004).

C. THE DD-1716 DEFICIENCY REPORT

The DD-1716 deficiency report is a tool used by DFAS to notify the appropriate contracting personnel of contract deficiencies that must be remedied in order to continue administrative processing of a contract. There are more than 50 possible error codes that can be included in a DD-1716 contract deficiency report. These error codes are intended to alert the contracting professional as to the general nature of the deficiency requiring corrective action. A detailed description intended to amplify the specifics of the particular deficiency is prepared by the issuing DFAS clerk and included in the report.

DFAS processes approximately 80,000 contract actions each year (Shacklock, personal communication, November 18, 2004). If one were to assume that just five percent of the contract actions processed by DFAS annually contain at least one material error, then one might expect to see at least 4,000 DD-1716 reports issued annually. In reality, DFAS issues only approximately 1,300 DD-1716 deficiency reports per year. This relatively small number of DD-1716s appears to misrepresent the true scope of the problem.

So why the disparity between the number of DD-1716 reports that *should* be issued and the number that actually *are* issued? It is likely rooted in: 1) the fact that many errors are not discovered at the DFAS level, being passed further “downstream” and remaining unnoticed until the contract payment phase or the contract closeout phase

¹ U.S. Navy Prompt Payment interest charges for fiscal year 2003 were \$3,192,923.20. This figure does not include additional interest incurred by contracts issued by the U.S. Marine Corps.

where subsequent reconciliation is required; and 2), many deficiencies are remedied “on the spot” through direct communication between DFAS and the contracting activity without ever issuing a DD-1716 report.

For the statistician, it is ideal if *every* contract deficiency is addressed within a DD-1716 contract deficiency report. This would provide a much more robust “data trail” for comprehensive analysis of the problem of contract deficiencies. But, as discussed above, this is not presently the case. So, it must be stated that the DD-1716 data used to conduct the analysis contained in this work is incomplete. Statistical analysis of the data is hampered by the high degree of non-response errors (e.g., unreported contract deficiencies), making sound statistical analysis and probability determinations imprecise at best.

However, the contract deficiency data points we *are* able to obtain are of value in that each of them represents a resource drain on the DOD. That is, each DD-1716 report required the expenditure of valuable resources to: 1) generate the report; and 2), remedy the problems identified in the report. Further, the problems highlighted by DD-1716 reports are those that directly contribute to the problem of Prompt Payment interest charges. So, it makes sense to construct a tool (in the form of an addendum to the NCWG) that is built upon the actual DD-1716 data, even if it is considered incomplete and not worthy of strict statistical analysis. For these reasons, this work has relied upon the DD-1716 deficiency report information that is stored in the NAFI database.

THIS PAGE INTENTIONALLY LEFT BLANK

II. RESEARCH METHODS

A. OBJECTIVE

The overarching goal of this project is to create an addendum to the Navy Contract Writing Guide to aid those professionals who write contracts to do so with an increased awareness of the causes and trends associated with the leading contract deficiencies. It is believed that through greater understanding of the problems and issues associated with contract deficiencies, a reduction in the number and frequency of contract deficiencies can be achieved. By reducing contract deficiencies, it is hoped that the tremendous administrative and fiscal burdens brought about by the problem of contract deficiencies can also be lessened.

To this end, a significant amount of time has been spent researching the leading contract deficiencies as well as some of the overarching issues that lead to contract deficiencies. The research efforts of this work were concentrated on the leading contract deficiencies in search of solutions that could be implemented at the level of the contract professional responsible for writing contracts. A key focus of this work is to make the format of the addendum truly “user-friendly”. As such, excessive textual descriptions of research methodologies and findings are absent from the addendum itself, instead being placed in the current section so as to make the former more readable and “user-friendly”.

B. RESEARCH QUESTIONS

1. Primary Research Question

The primary research question is intended to give the focus and scope necessary to make the project a success. This question has shaped the outcome of this project:

1. What are the leading DD-1716 contract deficiencies that occur in the Navy and Marine Corps (as reported via DD-1716 contract deficiency reports) and what measures can be proposed to help alleviate the occurrence of these deficiencies?

2. Secondary Research Questions

Two secondary research questions were identified to help refine the approach that would best serve to make the addendum effective and user friendly. These questions are:

2. Of the leading contract deficiencies, which ones should be specifically addressed in the addendum?
3. Of the leading causes identified, what are the best solutions that can be implemented at the user level?

C. SCOPE AND ORGANIZATION

This project originated with the intention of reducing the occurrence of contract deficiencies. It was undertaken with the hope that these reductions will lead to reduced administrative burdens and financial costs, specifically with regard to Prompt Payment interest and contract closeout. The approach to reducing the occurrence of contract deficiencies is, admittedly, small-scale. That is, this addendum puts forth front-line, user-level solutions to contract deficiencies without seeking to identify the larger, overarching problems of contract deficiencies. As stated previously, through the independent research and interaction with contracting professionals conducted during this work, some “big picture” problems have been identified. These problems and associated recommendations are included in Chapter III, Findings and Recommendations.

The organization of this work is broken into two broad sections. The first of these (the current section) contains several chapters that are used to present the background information necessary to understand why this effort was undertaken, the research questions and methodologies used, as well as the work’s findings and recommendations. The next section of the work is the addendum to the Navy Contract Writing Guide itself.

The addendum section commences with a brief introduction to the problem and significance of contract deficiencies in general. Following this introduction, each of the leading deficiencies has been addressed individually. A general discussion describing the specific deficiency and its impact is included along with a section identifying direct and

contributing factors and potential solutions. Once again, the layout of the addendum is intended to be user-friendly while also remaining relatively similar in style to the rest of the Navy Contract Writing Guide.

Organizing this work in two broad sections allows for the addendum to be readily integrated into the existing Navy Contract Writing Guide without the need for excessive copy editing. Furthermore, by dedicating a separate section to background information, research methodologies, and findings and recommendations, this information is more ably preserved as a resource for future research and study.

D. METHODOLOGY

The following section details the methodologies used to complete this project:

1. Literature research consisting of Internet sources, periodicals, briefing slides, and government publications.
2. Interviews with contracting personnel (both active-duty and civil service) representing a cross-section from the Defense contracting community (specifically the Navy and Marine Corps contracting community) were conducted. These interviews were of an on-going nature and were conducted in person, via telephone, and through email.
3. The data and analysis were integrated into the current section to provide context and understanding of the background issues, findings and recommendations. Further, the information was specifically tailored to fit the addendum so that a user-friendly and effective tool for use by contracting professionals could be achieved.

E. DATA ANALYSIS

NAFI data on DD-1716 contract deficiency reports was used to determine the leading contract deficiencies.² As mentioned previously in Chapter I, the data used for this work is considered less than ideal due to its incompleteness. Nevertheless, the data is considered adequate for the objectives of this project as set forth previously in this chapter. By analyzing the frequency of occurrence of the various types of contract deficiencies, a percentage-based ranking of the leading deficiencies was developed that was used to determine the specific deficiencies this addendum would address. After analyzing the data, it was deemed unnecessary to address all possible contract deficiencies. Addressing the top ten leading deficiencies (representing over 72% of all contract deficiencies reported³) was determined to be a more effective and time efficient approach.

As noted earlier, the individual DD-1716 deficiency reports contain detailed descriptions (written by DFAS clerks) of each deficiency requiring corrective action. These detailed descriptions were analyzed and used to generate a listing of the leading causes for each of the leading contract deficiencies.

Lastly, contracting personnel from the Navy, Marine Corps, DFAS, and private consultants to DoD were consulted for assistance in data interpretation and analysis.

² Data period: January 1, 2004 through October, 21 2004. January 1, 2004 is the data range starting point because there were some NAFI data upload errors experienced during CY2003. So, use of CY2003 data was avoided. October 21, 2004 is the date range end point because it is the date on which data analysis for this project was commenced.

³ The top five error codes represent 72.7% of the total contract deficiencies reported for the data period.

III. FINDINGS AND RECOMMENDATIONS

A. LEADING CONTRACT DEFICIENCIES

It is important to note that there is a high same-error rate in the writing of contracts. This is to say that particular contract deficiencies are occurring with a relatively high frequency. *Figure 1* shows that the top ten contract deficiencies comprise over 72% of all contract deficiency occurrences.⁴ This means that less than one-fifth of the total possible error codes constitute more than 70% of the reported contract deficiencies.⁵

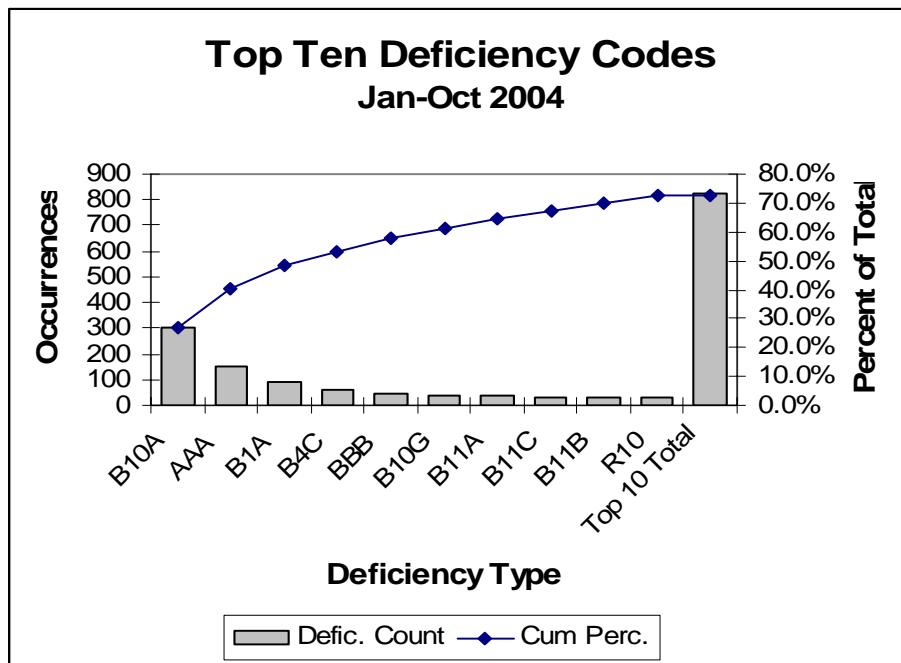


Figure 1. Top Ten Deficiency Codes

Table 1 summarizes the data for the top ten deficiencies that was used as the basis for the DD-1716 contract deficiency ranking while directly addressing the primary research

⁴ The top ten contract deficiencies comprise 72.7% of all reported deficiencies for the data period.

⁵ There are 51 possible DD-1716 error codes. The “top ten” codes make up just 19.6% of all possible codes yet comprise 72.7% of DD-1716 reports list at least one of these “top ten” codes as a primary deficiency.

question: *What are the leading DD-1716 contract deficiencies that occur in the Navy and Marine Corps?*

Rank	Code	Description	Freq.	Perc.	Cum Perc.
1	B10A	<i>Long line of acct. invalid</i>	303	26.8%	26.8%
2	AAA	<i>Contract & supporting docs late</i>	152	13.4%	40.2%
3	B1A	<i>CLINS not structured IAW DFARS 204</i> <i>Contractor name/address conflict</i>	89	7.9%	48.1%
4	B4C	<i>w/CAGE data</i> <i>Contract & supporting docs w/missing pages</i>	60	5.3%	53.4%
5	BBB	<i>pages</i>	48	4.2%	57.6%
6	B10G	<i>Total obligation/deobligation incorrect</i>	38	3.4%	61.0%
7	B11A	<i>Administrative office incorrect</i> <i>Contractor mod nbr not structured IAW</i>	37	3.3%	64.3%
8	B11C	<i>DFARS</i> <i>Payment office incorrect/needs clarification</i>	33	2.9%	67.2%
9	B11B	<i>clarification</i>	31	2.7%	69.9%
10	R10	<i>Modification cannot be processed</i>	31	<u>2.7%</u>	<u>72.7%</u>
Top 10 Total			822	72.7%	72.7%
Total All Deficiencies			1131	100.0%	

Table 1. Contract Deficiency Data

Looking closely at the data in *Table 1*, it becomes evident that while the top ten deficiencies constitute over 70% of all contract deficiencies reported for the data period, the strongest concentration of contract deficiencies actually occurs within the top five contract deficiencies as represented below:

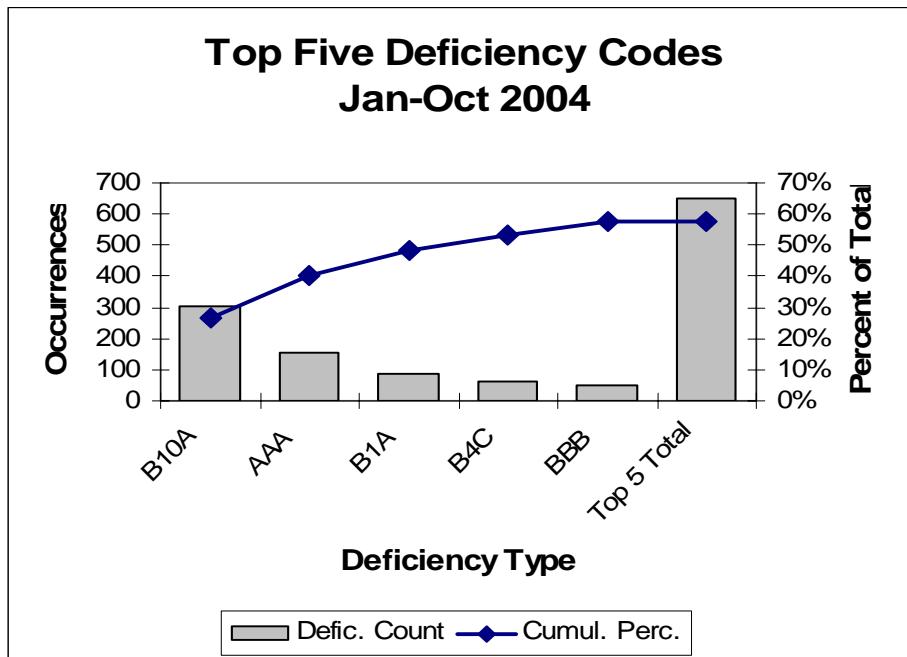


Figure 2. Top Five Deficiency Codes

Figure 2 shows that in 2004, more than 25% of all DD-1716 contract deficiencies are attributed to a single type of error: *long line of accounting invalid* (code: B10A), and that the top five error codes (by frequency of occurrence) comprise nearly 60% of all contract deficiencies. The high frequency of occurrence of the top five deficiency codes is as encouraging as it is troubling. Such a tight grouping in the frequency of occurrence of contract deficiencies allows for a limited, yet focused, effort with a high likelihood that effective reductions in contract deficiencies can be achieved. As previously mentioned, this is important, especially considering the current nature of the nation's defense resource environment. In such an environment, it is necessary to seek efficiencies wherever able. For these reasons and in response to the secondary research question, *Of the leading contract deficiencies, which ones should be specifically addressed in the addendum?*, it is determined that the most effective approach to reducing contract deficiencies is to focus on the top five contract deficiencies by addressing each individually in the addendum. The remaining top ten leading error codes – that is, the sixth through tenth leading codes - are addressed as a group because the individual contribution of each of these is minimal, but collectively they represent a significant contribution to the overall occurrence of deficiencies.

B. CAUSES OF CONTRACT DEFICIENCIES

In determining the causes of contract deficiencies for this work, a two-fold approach was used. First, the NAFI data was looked at closely. Specifically, the “detailed description” portion of each DD-1716 contract deficiency report was analyzed. It was anticipated that a qualitative analysis was necessary to categorize these detailed descriptions so that they might be sorted and counted. However, it quickly became clear that the leading causes were easily able to be determined without a great deal of qualitative data grouping. For each of the leading contract deficiencies, there were several leading causes that were easily highlighted due to the frequency of their mention. Most of the remaining causes occurred infrequently enough to be considered “outliers” and were, therefore, not considered significant enough to be included in the appendix.

Second, these causal factors were then presented to contracting professionals to determine whether or not they should be addressed in the addendum. In most cases, the contracting professionals confirmed that the causes that were extracted from the “detailed descriptions” data were, according to their experiences, the chief causes behind the various contract deficiencies.

A complete treatise of the causes of contract deficiencies can be found in the Appendix.

C. RECOMMENDATIONS

1. Specific Recommendations

It is recommended that the addendum contained in appendix A be incorporated into the NCWG for immediate distribution. Further, it is recommended that the office of the Assistant Secretary of the Navy for Research, Development, and Acquisitions continue to support the NCWG project by promoting its use and distribution as well as continuing to fund the research effort through the Naval Postgraduate School. The NCWG is a valuable tool in its current state, but with continued interest and focused research into the project, its contents can be significantly improved upon.

A second recommendation deals with specific DD-1716 error codes and is essentially an issue of clarity of information exchanged between DFAS and contracting professionals. When researching the causes for error code AAA, “Contract and supporting documents are late”, it was noted that this code was effectively being used by DFAS to highlight a number of various contract deficiencies. Among these: “Cannot input modification without a hard copy of contract”; “Missing pages of subject contract/modification”; “Contract has been altered using correction fluid”; and “Document has pen and ink changes.”

Interestingly, the causes noted by DFAS that seem to have been “lumped in” under code AAA could have been more suitably addressed by other existing, more specific codes that are available to the DFAS clerk. For instance, there exists an error code BBB, “Contract and supporting documents with missing page(s)” that could have been used to address many of the deficiencies that were instead handled via error code AAA. Frequently, however, DFAS tends to view errors from the perspective of timeliness. That is, if a contract modification has been received without also receiving a hard copy of the original contract (which is a requirement), then the hard copy of the contract might be viewed as being late and, subsequently, a DD-1716 report with code AAA, “Contract and supporting documents are late” might be used to denote the nature of the problem.

It is true that the detailed description section of the DD-1716 section is useful for the contract professional in determining the exact nature of the deficiency at hand. However, it is recommended that DFAS be more precise in choosing DD-1716 error codes by ensuring the code that is issued fits the true nature of the deficiency.

2. General Recommendations

There are many high-level systemic issues that could be addressed in search of solutions to the root causes of contract deficiencies. For instance, a major source of contract deficiencies is the electronic interface between SPS and NAFI database. Some transmission errors occur during the upload of contracts and supporting documentation into the NAFI database. These transmission errors include “garbled” data and missing or incomplete data transmissions and are not generally rooted in direct human error. It is

recommended that these transmission errors be investigated and solved by the SPS and NAFI responsible agents.

Another area of interest deals with the system of error checking of contracts. Of the four general administrative phases of a contract's lifecycle (origination, administration, payment, and audit) only in the payment phase is there a detailed, organization-wide effort in place to detect contract errors. This occurs as Defense Finance and Accounting Service (DFAS) clerks analyze contracts to ensure they meet administrative requirements prior to payment. It is certain that many contracting activities have their own local procedures to ensure contract accuracy, but ideally each phase of a contract's lifecycle should include established and uniform deficiency detection procedures with the aim of not passing any deficiencies "downstream".

There are existing systems in place that could be used to conduct contract error checking, such as the integrity tool contained within SPS. This integrity tool could be used to conduct comprehensive validation of information during initial data entry into SPS. However, the usage of this tool is not mandatory and, even if it were, there is no central repository (e.g., network server) containing the set of data rules that the more than 300 SPS servers worldwide would need to access to ensure uniformity in contract data input. It is recommended that a comprehensive effort be undertaken to implement a DOD-wide system of standardized error checking of contracts.

In truth, to arrive at worthwhile and lasting solutions, a broad systems-based perspective is necessary. A systems-based perspective addresses issues like those detailed above while looking for improvements to key processes with the aim of reducing the overall costs and burden of contract administration and management.

In the interim, Navy and Marine Corps contracting professionals must function within the current framework. Therefore, the focus of this addendum is to give the procuring contracting officer (PCO) and contracting staff some *local* tools to help alleviate the occurrence and impact of contract deficiencies.

3. Future Research

Defense leaders might view with particular interest a model that is able to accurately determine the financial burdens for DOD that are brought on by contract

deficiencies. Such a model would necessarily need to incorporate the financial burdens associated with Prompt Payment interest as it pertains to contract deficiencies. Additionally, the costs in terms of “other” resources such as administrative and personnel costs would need to be included in such a model.

Another area that could potentially generate considerable interest is a performance audit of the SPS-NAFI interface. Such an audit would need to include an assessment of the current level to which the two systems are able to effectively communicate. Secondly, the assessment will want to search for areas where the interface of the systems is sub-optimized and offer recommendations for improvements.

THIS PAGE INTENTIONALLY LEFT BLANK

IV. ADDENDUM TO THE NAVY CONTRACT WRITING GUIDE ADDRESSING CONTRACT DEFICIENCIES

OVERVIEW: DD-1716 DEFICIENCY REPORTING

Introduction:

This addendum to the NCWG deals with the problem of contract errors, known as *deficiencies*. Upon discovering a contract deficiency, clerks at the Defense Finance and Accounting Service (DFAS) bring the problem to the attention of contracting professionals by issuing an electronic notification, known as a DD-1716 deficiency report. This DD-1716 deficiency report is intended to highlight the contract in question so that the deficiency might be remedied in order to continue the administrative processing of the contract.

Impact of Contract Deficiencies:

Administrative processing delays of contracts often lead to delayed payments to commercial vendors. Each year the Defense Department incurs many millions of dollars in Prompt Payment interest charges, much of which is caused by contract deficiencies. In fiscal year 2003, for instance, the U.S. Navy spent nearly \$3.2 million in Prompt Pay interest. Leaders in the Department of Defense rightly view these charges as wasteful and avoidable. Further, contract deficiencies lead to increased administrative and personnel burdens. Witness the growing number of contracts awaiting closeout that are unable to be processed due to the contract deficiencies. The Assistant Secretary of the Navy conceived this project for Research, Development, and Acquisitions for the explicit purpose of reducing the occurrence of contract deficiencies in the Navy and Marine Corps contracting community.

Research and Data:

To this aim, extensive research on the leading contract deficiencies was conducted. It was determined that over 57% of all deficiencies are caused by just five general types of deficiencies and that over 72% of all contract deficiencies are attributable to the ten leading deficiencies. Further, the leading cause of contract deficiencies, *long line of accounting invalid*, constitutes 27% of all contract deficiencies. Such a tight grouping in the frequency of occurrence of contract deficiencies allows for a limited, yet focused, effort with a high likelihood that effective reductions in contract deficiencies can be achieved.

Purpose:

The chief objective of this work was to create a practical addendum to the NCWG that could be quickly incorporated and used immediately by contract professionals

responsible for writing contracts. It is hoped that this addendum will be of value to the contracting professional and will be an effective component in achieving reductions in the overall number of contract deficiencies experienced in the Navy and Marine Corps. Furthermore, it is hoped that these reductions in contract deficiencies can help lessen the annual burden of Prompt Payment interest.

Format:

The most effective approach to reducing contract deficiencies is to focus on the top five contract deficiencies by addressing each of them individually in this addendum. The remaining top ten leading error codes – that is, the sixth through tenth leading codes - are addressed as a group because the individual contribution of each of these is minimal, but collectively they represent a significant contribution to the overall occurrence of deficiencies.

ERROR CODE: B10A

LONG LINE OF ACCOUNTING INVALID

DESCRIPTION:

The contract or modification could not be processed because it was noted that the long line of accounting (LOA) was not valid: something within the given line prevented validation by the Defense Finance and Accounting Service Columbus (DFAS CO) systems.

IMPACT:

B10A comprises nearly 27% of all contract deficiency reports generated by DFAS.⁶ This is the leading contract deficiency (by frequency of occurrence) experienced in the Navy and Marine Corps contracting communities.

DISCUSSION:

The LOA contains a complex array of alpha-numeric characters. As such, there is ample room for error in relaying the accounting line between individuals and during contract data entry into the contract and the various contract writing systems including the Standard Procurement System (SPS). Errors in LOA structure are also difficult to recognize due to the LOA's complexity and length. Additionally, there are occurrences where the LOAs issued by the local Financial Manager (FM) are not recognized as having valid subheads appropriation data.

DIRECT AND CONTRIBUTING FACTORS:

DIRECT FACTOR: The structure of the LOA is incorrect.

DESCRIPTION: One or more of the elements within the given LOA could be in error. Some of the more common errors include:

- ACRN previously cited
- Subhead Invalid
- Mismatched ACRN and LOA
- Appropriation data invalid

There are two critical categories of LOA errors that can inhibit payment processing. The first category of error involves treasury level issues, which mean the data provided for the appropriation and/or subhead limit is wrong. This means that the U.S. Treasury Department would not be able to recognize the line of accounting for payment. The second category, known as "below the treasury level errors", involves incorrect data for everything other than the appropriation/subhead. This second category would mean that the accounting line could not or would not be able to properly post in the accounting books.

⁶ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reflected by the Navy Air Force Interface (NAFI) as reported by DFAS CO . Of these, 303 were issued as code B10A (long line of accounting invalid) comprising 26.8% of all deficiency codes for the period.

CONTRIBUTION FACTOR: The contracting officer has an incorrect LOA.

DESCRIPTION: This might be a simple relay error between the FM and the Procuring Contracting Officer (PCO) or the problem might reside within the finance office itself. The FM may have provided an LOA that is thought to be valid but is not recognized as being valid by DFAS-CO.

CONTRIBUTING FACTOR: The LOA was input incorrectly into SPS.

DESCRIPTION: Compare the LOA contained in SPS with the LOA provided by the FM for the contract in question. Simple typographical errors during data relay or input are not uncommon.

POTENTIAL SOLUTIONS:

1. In the short term – mandate that the Financial Accounting Data (FAD) sheet be included with the contract and supporting documents when submitted to DFAS. In lieu of entering the LOA in the contract, the PCO should simply reference the FAD sheet in the supporting documents. By ensuring the FMs signature, telephone number and email address are included on the financial data sheet, turnaround time might be shortened in the case a problem does arise because the FM could be contacted directly to clarify the information.
2. In the long term - create a local database of existing LOAs with references to the contracts to which they have been assigned. The database might help with relay and input errors (through electronic “copying/pasting”) as well as help to organize the data so that anomalies (structural or duplications) might be more readily noted.
3. Refer to the diagram and discussion in the following section in order to better understand the necessary structure of the LOA. The discussion following the diagram addresses those items that are “at the Treasury level”, including the use of ACRNs, Appropriation data, and Subhead limits as these are among the leading causes of invalid LOAs.

LONG LINE OF ACCOUNTING REFERENCE:

The following diagram and accompanying bullets are to serve as a quick LOA reference:

AA:	1731506	W246	260	14007	0	068342	1F	000024	00000000000000
↓		4	3	5	1	6	2	6	12
ACRN	↓	Subhead	↓	BCN	↓	Acctng	↓	PAA	Cost Code
	↓	Appropriation	↓	Object Class	↓		↓	Trans Code	
					↓	Sub Alt Number			

ACRN - Accounting Classification Reference Number. DFARS 204.7107 states:

Assigning the ACRNs is the responsibility of the contracting office issuing the contract, basic ordering agreement, or blanket purchase agreement. This authority shall not be delegated. If more than one office will use the contract (e.g., ordering officers, other contracting officers), the contract must contain instructions for assigning ACRNs.

Procedures for establishing ACRNs. ACRNs consist of a two position alpha or alpha/numeric code assigned to each discrete accounting classification citation within each contract. ACRNs shall be established in accordance with the following guidelines: (1) Do not use the letters I and O. (2) In no case shall an ACRN apply to more than one accounting classification citation, nor shall more than one ACRN be assigned to one accounting classification citation.

Using the ACRN in the contract. (1) Show the ACRN as a detached prefix to the accounting classification citation in the accounting and appropriations data block or, if there are too many accounting classification citations to fit reasonably in that block, in section G (Contract Administration Data). (2) ACRNs need not prefix accounting classification citations if the accounting classification citations are present in the contract only for the transportation officer to cite to Government bills of lading. (3) If the contracting officer is making a modification to a contract and using the same accounting classification citations, which have had ACRNs assigned to them, the modification need cite only the ACRNs in the accounting and appropriations data block or on the continuation sheets.

There are strict requirements governing the assigning and use of ACRNs. See [DFARS 204.7107](#) for complete information on their proper use.

APPROPRIATION – The first two digits are the Treasury Index used to identify the organization, for the Navy it is “17”. The next one or two digits are used to denote the fiscal year (the example above is “3”, e.g., FY03); lastly, the symbol used to identify the funds (the example above uses “1506”).

SUBHEAD – Also known as the Subhead limit. Subheads are developed in accordance with Financial Management Policy Manual (NAVSO P-1000, Chap.2) based on funds received through the budget process. What this means for the contracting professional and financial manager is that, once received, the subhead should be used “as is”, remaining unaltered in any way.

THIS PAGE INTENTIONALLY LEFT BLANK

ERROR CODE: AAA

CONTRACT AND SUPPORTING DOCUMENTS ARE LATE

DESCRIPTION:

The contract or modification could not be processed because DFAS does not have all required contract documentation to proceed.

IMPACT:

This is the second leading contract deficiency (by frequency of occurrence) experienced in the Navy and Marine Corps contracting communities. AAA comprises 13% of all reported contract deficiencies.⁷

DISCUSSION:

While the plain language title of code AAA states that this code is used to denote late documents, in reality it is used by DFAS to highlight a variety of reasons for which the contract cannot be processed, including: copy of contract missing, missing pages of submitted documents, and pen/ink/fluid corrections to document(s). While there appears to be no strict guidelines established for determining whether or not documents are "late", DFAS considers the order in which documents are received to be important. The following are examples of "late" that might trigger the generation of DD-1716 deficiency reports:

- DFAS receives a modification prior to receiving the contract it applies to... the contract is "late"
- DFAS receives a delivery order prior to receiving the basic ordering agreement... the BOA is "late"
- DFAS receives a contract without a solicitation... the solicitation is "late"

Whatever the case, the contracting professional needs to take action to address this error code by providing certain contract and supporting information to DFAS in order to proceed with payment/invoice processing. As with any other error code, it is wise to refer to the specific error description within the DD-1716 error report for clarification on what is needed to remedy the error.

DIRECT AND CONTRIBUTING FACTORS:

DIRECT FACTOR: DFAS does not have the documentation necessary to process the contract, modification, or delivery order.

DESCRIPTION: In order to process new contracts, basic ordering agreements (BOAs), delivery orders, or modifications to existing contracts, DFAS must have either an electronic or hard copy of all contract documents. This includes all items that are

⁷ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reported by DFAS. Of these, 152 were issued as code AAA comprising 13.4% of all deficiency codes for the period.

referenced in the contract as well as all attachments and/or exhibits. Some of the more common instances of missing or late documents are as follows:

Copy of contract missing (especially in the case of contract modifications)
Solicitation is missing
BOA not included
Attachments or exhibits are missing
Documents received but missing pages

CONTRIBUTING FACTOR: Transmission errors are at fault.

DESCRIPTION: While not common, data transmission errors sometimes occur between SPS and NAFI, and/or EDA. This can result in DFAS not receiving all required documentation even after the contracting officer has submitted them. This is a systems-based problem over which the contracting officer has little control. Monitoring these transmission errors and reporting them to the SPS and NAFI/EDA help desks serves to highlight the problem.

DIRECT FACTOR: The required documents were not submitted.

DESCRIPTION: This could be caused by simple oversight, inadequate administrative procedures, or lack of understanding as to which documents are required to be submitted. The contracting professional needs to ensure that such contractual documentation is submitted in a timely and orderly fashion. That is, a delivery order (DO) should not be delivered before the BOA - or modification 10 should not be submitted before modification 6 or 7. The contracting professional should ensure the contract files are complete and documents are posted in logical order.

POTENTIAL SOLUTIONS:

1. Ensure sequential submission of documents to DFAS for processing. For instance, submitting a contract modification before the previous modification has been received/processed by DFAS will almost guarantee a DD-1716 deficiency report will be issued. The best way to ensure sequential transmission is to use NAFI to monitor the receipt status of the various contract documents.
2. Ensure that a copy of the solicitation is submitted with all contracts. The high occurrence of this particular error (as well as those contained in #s 3 & 4 below) warrants special mention of the problem.
3. Ensure that a copy of the contract is submitted with all modifications. When processing modifications, DFAS refers to the original contract for information necessary to proceed with payment/invoice processing. By ensuring the original contract is provided with the modification, processing time can be significantly reduced.
4. Ensure a copy of the BOA is submitted before or with DOs. By themselves, DOs do not contain enough information for payment/invoice processing. Until the Basic Ordering Agreement (BOA) is received for the DO, payment processing cannot take place.

ERROR CODE: B1A

CLINS/SUBCLINS/ELINS Not Structured IAW DFARS 204

DESCRIPTION:

The contact or modification could not be processed by DFAS because of an error in the CLINS/SUBLCINS/ELINS structure.

IMPACT:

This is the third leading contract deficiency (by frequency of occurrence) experienced in the Navy and Marine Corps contracting communities. B1A comprises 8% of all reported contract deficiencies.⁸

DISCUSSION:

[DFARS 204.71](#) sets forth the requirements for the Uniform Contract Line Item Numbering System (CLINS). Adhering to the required structure is not difficult, but there is ample room for error due to the relative complexity of the CLINS structure and nuanced rules of its use. There is a wide variety of specific structural violations noted by DFAS. Some of the leading CLINS structural problems cited are:

- CLINS previously used (on a previous modification, etc.)
- Both CLINS and SUBCLINS obligate money
- Cost and Fee information is not adequately detailed
- Use of the letters “I” or “O” in the CLINS structure

DIRECT AND CONTRIBUTING FACTORS:

DIRECT FACTOR: Contracting professionals not carefully monitoring their numbering system of CLINS and SUBCLINS

CONTRIBUTING FACTOR: Contracts are so large and complex, that contracting professionals lose track of the numbering process

CONTRIBUTING FACTOR: Contracting Professionals definitize items in order – do not reassign the undefinitized order but assign the next modification number available

CONTRIBUTION FACTOR: CLIN information is not easy to read. Contracting Professionals should use the prescribed format and ensure the information is identified in the proper section of the contract.

⁸ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reported by DFAS. Of these, 89 were issued as code B1A comprising 7.9% of all deficiency codes for the period.

POTENTIAL SOLUTIONS:

1. Contracting Professionals should use the format prescribed in [DFARS subpart 204.71](#) and ensure the information is identified in the proper section of the contract.
2. An effective way to deal with the wide variety of specific issues with CLINS structural problems is to present a synopsis of DFARS 204.71 detailing the procedures for establishing, assigning, and using CLINS. The following synopsis is intended as a review only and contains sections of incomplete/missing text—refer to the DFARS for the complete text:

Synopsis:

SUBPART 204.71--UNIFORM CONTRACT LINE ITEM NUMBERING SYSTEM

204.7101 Definitions.

“Attachment” means any documentation, appended to a contract or incorporated by reference, which does not establish a requirement for deliverables.

“Definitized item,” as used in this subpart, means an item for which a firm price has been established in the basic contract or by modification.

“Exhibit” means a document, referred to in a contract, which is attached and establishes requirements for deliverables. The term shall not be used to refer to any other kind of attachment to a contract. The DD Form 1423, Contract Data Requirements List, is always an exhibit, rather than an attachment.

“Nonseverable deliverable,” as used in this subpart, means a deliverable item that is a single end product or undertaking, entire in nature, that cannot be feasibly subdivided into discrete elements or phases without losing its identity.

“Undefinitized item,” as used in this subpart, means an item for which a price has not been established in the basic contract or by modification.

204.7103 Contract line items.

204.7103-1 Criteria for establishing.

Contracts shall identify the items or services to be acquired as separate contract line items unless it is not feasible to do so.

(a) Contract line items shall have all four of the following characteristics; however, there are exceptions within the characteristics, which may make establishing a separate contract line item appropriate even though one of the characteristics appears to be missing—

- (1) *Single unit price.*
- (2) *Separately identifiable.*
- (3) *Separate delivery schedule.*
- (4) *Single accounting classification citation.*

204.7103-2 Numbering procedures.

(a) Contract line items shall consist of four numeric digits 0001 through 9999. Do not use numbers beyond 9999. Within a given contract, the item numbers shall be sequential but need not be consecutive.

(b) The contract line item number shall be the same as the solicitation line item number unless there is a valid reason for using different numbers.

(c) Once a contract line item number has been assigned, it shall not be assigned to another, different, contract line item in the same contract.

204.7104 Contract subline items.

204.7104-1 Criteria for establishing.

Contract subline items provide flexibility to further identify elements within a contract line item for tracking performance or simplifying administration. There are only two kinds of subline items:

those, which are informational in nature, and those which consist of more than one item that requires separate identification.

(a) *Informational subline items.*

(1) This type of subline item identifies information that relates directly to the contract line item and is an integral part of it (e.g., parts of an assembly or parts of a kit).

(b) *Separately identified subline items.*

(1) Subline items will be used instead of contract line items to facilitate payment, delivery tracking, contract funds accounting, or other management purposes.

204.7104-2 Numbering procedures.

(a) Number subline items by adding either two numeric characters or two alpha characters to the basic contract line item number.

(1) *Information subline item numbers.* Use numeric characters only for information subline items, running 01 through 99. Do not use spaces or special characters to separate the subline item number from the contract line item number that is its root.

(2) *Separately identified subline items.* Use alpha characters only for separately identified subline items, running AA through ZZ. Do not use spaces or special characters to separate the subline item number from the contract line item number that is its root. For example, if the contract line item number is 0001, the first three subline items would be 0001AA, 0001AB, and 0001AC.

(i) Do not use the letters I or O as alpha characters.

(ii) Use all 24 available alpha characters in the second position before selecting a different alpha character for the first position. For example, AA, AB, AC, through AZ before beginning BA, BB, and BC.

(b) Within a given contract line item, the subline item numbers shall be sequential but need not be consecutive.

(c) Exhibits may be used as an alternative to setting forth in the schedule a long list of contract subline items. If exhibits are used, create a contract subline item citing the exhibit's identifier. See 204.7105.

(d) If a contract line item involves ancillary functions, like packaging and handling, transportation, payment of state or local taxes, or use of reusable containers, and these functions are normally performed by the contractor and the contractor is normally entitled to reimbursement for performing these functions, do not establish a separate subline item solely to account for these functions. However, do identify the functions in the contract schedule. If offeror separately prices these functions, then contracting officers may establish separate subline items for the functions; however, the separate subline items must conform to the requirements of 204.7104-1.

204.7105 Contract exhibits and attachments.

(a) *Use of exhibits.*

(1) Exhibits may be used instead of putting a long list of contract line items or subline items in the contract schedule. Exhibits are particularly useful in buying spare parts.

(2) When using exhibits, establish a contract line or subline item and refer to the exhibit.

(3) Identify exhibits individually.

(4) Each exhibit shall apply to only one contract line item or subline item, except—

(i) One exhibit may apply to one or more option line item(s) when the data required under the exhibits is identical in all respects except the period during which the option is to be exercised; and

(ii) An exhibit may apply to more than one contract line item if the exhibit is not separately priced and the exhibit deliverable is identical for all applicable contract line items.

(5) More than one exhibit may apply to a single contract line item.

(6) Data items on a DD Form 1423, Contract Data Requirements List, may be either separately priced or not separately priced.

(7) The contracting officer may append attachments to exhibits, as long as the attachment does not identify a deliverable requirement, which has not been established by a contract or exhibit line or subline item.

(b) *Numbering exhibits and attachments.*

(1) Use alpha characters to identify exhibits. The alpha characters shall be either single or double capital letters. Do not use the letters I or O.

(2) Exhibit identifiers need not be either consecutive or sequential.

(3) Once an identifier has been assigned to an exhibit, do not use it on another exhibit in the same contract.

(4) The identifier shall always appear in the first or first and second positions of all applicable exhibit line item numbers.

(5) If the exhibit has more than one page, cite the procurement instrument identification number, exhibit identifier, and applicable contract line or subline item number on each page.

(6) Use numbers to identify attachments.

(c) *Numbering exhibit line items and subline items.*

(1) Criteria for establishing. The criteria for establishing exhibit line items and subline items is the same as those for establishing contract line items and subline items (see 204.7103 and 204.7104, respectively).

(2) Procedures for numbering.

(i) Number items in an exhibit in a manner similar to contract line items and subline items.

(ii) Number line items using a four position number.

(A) The first position or the first and second position contain the exhibit identifier.

(B) The third and fourth positions contain the alpha or numeric character serial numbers assigned to the line item.

(iii) Assign alpha or numeric characters to the line item on the basis of the same criteria outlined in contract subline items at 204.7104.

(iv) Exhibit line item numbers shall be sequential within the exhibit.

204.7106 Contract modifications.

(a) If new items are added, assign new contract line or subline item numbers or exhibit line item numbers, in accordance with the procedures established at 204.7103, 204.7104, and 204.7105.

(b) *Modifications to existing contract line items or exhibit line items.*

(1) If the modification relates to existing contract line items or exhibit line items, the modification shall refer to those item numbers.

(2) If the contracting officer decides to assign new identifications to existing contract or exhibit line items, the following rules apply—

(i) Definitized and undefinitized items.

(A) The original line item or subline item number may be used if the modification applies to the total quantity of the original line item or subline.

(B) The original line item or subline item number may be used if the modification makes only minor changes in the specifications of some of the items ordered on the original line item or subline item and the resulting changes in unit price can be averaged to provide a new single unit price for the total quantity. If the changes in the specifications make the item significantly distinguishable from the original item or the resulting changes in unit price cannot be averaged, create a new line item.

(C) If the modification affects only a partial quantity of an existing contract or exhibit line item or subline item and the change does not involve either the delivery date or the ship-to/mark-for data,

the original contract or exhibit line item or subline item number shall remain with the unchanged quantity. Assign the changed quantity the next available number.

(ii) Undefinitized items. In addition to the rules in paragraph (b)(2)(i), the following additional rules apply to undefinitized items—

(A) If the modification is undefinitized and increases the quantity of an existing definitized item, assign the undefinitized quantity the next available number.

(B) If the modification increases the quantity of an existing undefinitized item, the original contract or exhibit line item or subline item may be used if the unit price for the new quantity is expected to be the same as the price for the original quantity. If the unit prices of the two quantities will be different, assign the new quantity the next available number.

(C) If the modification both affects only a partial quantity of the existing contract or exhibit line or subline item and definitizes the price for the affected portion, the definitized portion shall retain the original item number. If there is any undefinitized portion of the item, assign it the next available number. However, if the modification definitizes the price for the whole quantity of the line item, and price impact of the changed work can be apportioned equally over the whole to arrive at a new unit price, the quantity with the changes can be added into the quantity of the existing item.

(D) If the modification affects only a partial quantity of an existing contract or exhibit line or subline item but does not change the delivery schedule or definitize price, the unchanged portion shall retain the original contract or exhibit line or subline item number. Assign the changed portion the next available number.

THIS PAGE INTENTIONALLY LEFT BLANK

ERROR CODE: B4C

CONTRACTORS NAME/ADDRESS CONFLICT WITH CAGE DATA

DESCRIPTION:

The contact or modification could not be processed by DFAS because of discrepancy between the contractor information provided in the contract documentation and that which is maintained in the CAGE database.

IMPACT:

This is the fourth leading contract deficiency (by frequency of occurrence) experienced in the Navy and Marine Corps contracting communities. B4C comprises 5% of all reported contract deficiencies.⁹

DISCUSSION:

Commercial and Government Entity (CAGE) codes are established to provide a uniform means by which contractors can be recognized for the purposes of information exchange between contracting facilities, solicitation requests, reporting, and contract payment.

The Defense Logistics Information Service (DLIS) is responsible for maintaining the CAGE database. If a prospective contractor located in the United States must register in the Central Contractor Registration (CCR) database (see FAR Subpart 4.11 for CCR information) and does not have a CAGE code, DLIS will assign a CAGE code when the prospective contractor submits its request for registration in the CCR database.

While it is the responsibility of DLIS to assign or record the CAGE codes to identify commercial and Government entities, it is the responsibility of the contracting officer to help the process by assisting contractors with CAGE issues whenever necessary.

DIRECT AND CONTRIBUTING FACTORS:

DIRECT FACTOR: The contractor information on the contract documentation conflicts with the CAGE data.

DESCRIPTION: The following are the most common problems cited by DFAS with regard to CAGE data:

- Contractor's name does not match the CAGE code
- Contractor address on contract does not match address in CAGE database
- Contractor name does not match name in CAGE database

⁹ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reported by DFAS. Of these, 60 were issued as code B4C comprising 5.3% of all deficiency codes for the period.

POTENTIAL SOLUTIONS:

1. Ensure that the contractor information entered into the contract documentation agrees with the information maintained in the CAGE database. The following resources might be used to help verify a contractor's CAGE information:
 - (a) The monthly H-series CD ROM that contains the H-4/H-8 CAGE master file issued by DLIS. (Address: Customer Service, Federal Center, 74 Washington Avenue, North, Battle Creek, MI 49017-3084. Telephone number: toll-free 1-888-352-9333;
 - (b) The on-line access to the CAGE file through the Defense Logistics Information System;
 - (c) The on-line access to the Defense Logistics Agency (DLA) CAGE file through the DLA Network or dial-up capability; or
 - (d) The Internet to access the CAGE Lookup Server at http://www.dlis.dla.mil/cage_welcome.asp.
2. Contracting professionals should help ensure an effective, useful, and accurate CAGE process. DFARS Subpart 204.7203 gives the following guidance on the responsibilities of contracting officers with regard to CAGE codes:
 - (a) Assist offerors in obtaining the required CAGE codes (see #3 below).
 - (b) Do not deny a potential offeror a solicitation package because the offeror does not have a contractor identification code.
 - (c) Consider requesting a CAGE code at the time a potential offeror is sent a solicitation package or added to the mailing list to ensure that a code is assigned in sufficient time to process the DD Form 350, Individual Contracting Action Report, without delay.
3. Contracting professionals should be ready to assist contractors in establishing CAGE codes or updating/maintaining their CAGE information whenever necessary. DFARS 204.7204 gives the following guidance regarding maintenance of a contractor's CAGE file:
 - (a) DLIS will accept written requests for changes to CAGE files, other than name changes, from the following entities:
 - (1) The entity identified by the code. The entity must use company letterhead to forward the request.
 - (2) The contracting office.
 - (3) The contract administration office.
 - (b) Submit requests for changes to CAGE files on DD Form 2051, or electronic equivalent, to—

Defense Logistics Information Service

*DLIS-SBB
Federal Center
74 Washington Avenue, North
Battle Creek, MI 49017-3084.
Telephone Numbers: toll-free (888) 352-9333,
DSN 932-4725,
Commercial (616) 961-4725.
Facsimile (616) 961-4388, 4485.*

- (c) The contracting officer responsible for execution of a change-of-name agreement (see FAR Subpart 42.12) must submit the agreement to DLIS-SBB. If there are no current contracts, each contracting and contract administration office receiving notification of changes from the commercial entity must forward a copy of the change notice annotated with the CAGE code to DLIS-SBB unless the change notice indicates that DLIS-SBB already has been notified.
- (d) Additional guidance for maintaining CAGE codes is in Volume 7 of DoD 4100.39-M, Federal Logistics Information System (FLIS) Procedures Manual.

THIS PAGE INTENTIONALLY LEFT BLANK

ERROR CODE: BBB

CONTRACT AND SUPPORTING DOCUMENTS WITH MISSING PAGE(S)

DESCRIPTION:

The contract or modification could not be processed because the contract documents submitted to DFAS contain missing pages or incomplete information.

IMPACT:

This is the fifth leading contract deficiency (by frequency of occurrence) experienced in the Navy and Marine Corps contracting communities. BBB comprises 4% of all reported contract deficiencies.¹⁰

DISCUSSION:

The plain language title of code BBB states that this code is used to denote missing pages from contract documents. Like code AAA, however, this code is used by DFAS to highlight a variety of reasons for which the contract cannot be processed, including:

- Contract received without Contract Data Requirements List (CDRL)
- Attachments cited in contract are missing
- Delivery order (DO) not yet received
- Exhibits cited in contract are missing

Again, this error code appears to be used by DFAS almost interchangeably with error code AAA. As such, the causal factors and solutions are relatively the same as those set out in the write-up for error code AAA.

DIRECT AND CONTRIBUTING FACTORS:

DIRECT FACTOR: Documentation required for payment processing has not been received by DFAS, is missing pages or information.

DESCRIPTION: In order to process new contracts, basic ordering agreements (BOAs), delivery orders, or modifications to existing contracts, DFAS must have complete and legible hard or electronic copies of all required contract documents. This includes all items that are referenced in the contract as well as all attachments and/or exhibits.

POTENTIAL SOLUTIONS:

Ensure all documents required by DFAS for payment processing are submitted in their complete form and that all items referenced in the contract are submitted, including attachments, exhibits, and CDRLs.

¹⁰ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reported by DFAS. Of these, 48 were issued as code AAA comprising 4.2% of all deficiency codes for the period.

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER LEADING ERROR CODES

Discussion:

The error codes identified in this write-up are the sixth through tenth leading contract deficiencies (by frequency of occurrence). When looked at cumulatively, these errors represent 15% of the total reported contract deficiencies.¹¹

Taken individually, each of these errors does not contribute a great deal to the overall number of contract deficiencies. As such, individual write-ups for each of the errors were not deemed worthwhile for the purposes of the NCWG.

It was deemed worthwhile, however, to address these codes together. By highlighting these errors and the causes cited for them and solutions (where applicable), it is hoped that reductions in the frequency of their occurrence might be realized through increased awareness. The following section will identify each of the codes individually and will offer the leading causes of each as cited by DFAS in the detailed descriptions section of individual DD-1716 deficiency reports.

<u>Error Code:</u>	<u>Description:</u>	<u>Reasons Cited:</u>
B10G	Total obligation/de-obligation incorrect	Improperly calculated dollar amounts Dollar amt on DO does not match latest mod Obligation amount does not match inc/dec amt
B11A	Administrative office incorrect	Geographic area cited on contract incorrect or sent to wrong admin office
B11C	Contractor mod nbr not structured IAW DFARS 204	Improper/incomplete modification number cited CLIN cited using different unit prices Mod on incorrect form. Use Stand. Form 30

¹¹ For the period of 01 January to 21 October 2004, there were a total of 1,131 DD-1716 contract deficiency codes reported by DFAS. Of these, 170 were issued for the comprising 4.2% of all deficiency codes for the period.

B11B	Payment office incorrect/needs clarification	Contractor address out of geographic area for admin office Contract cites outdated payment office and code No payment office cited in Block 15
R10	Modification cannot be processed	More than one line used for each CLIN CLINS/SUBCLINS shipped complete prior to receipt of current contract modification MOCAS will not accept half hours; must use whole numbers

LIST OF REFERENCES

- Department of Defense Office of the Inspector General (DOD IG) (2001). Standard Procurement System Use And User Satisfaction. [Report No.: D-2001-075, March 13, 2001].
- Huff, T. (2004). Navy Air Force Interface Briefing. PowerPoint briefing, BearingPoint Corp. June 22, 2004.
- Shacklock, N.K. (2004). U.S. Navy Prompt Pay Interest. PowerPoint Briefing, DFAS Columbus. July 2004.
- United States. General Accounting Office (GAO) (2003 February). DOD's Standard Procurement System. [GAO report: GAO-02-392T]. Retrieved October 27, 2004 from <http://www.gao.gov/new.items/d02392t.pdf>.

THIS PAGE INTENTIONALLY LEFT BLANK

INITIAL DISTRIBUTION LIST

1. Mr. Bruce Lowery
Office of the Assistant Secretary Of The Navy
Research, Development And Acquisition
1000 Pentagon
Washington, Dc 20350-1000
2. Director, Commercial Pay Services
DFAS Columbus
P.O. Box 182317
Columbus, OH 43218-2317
3. Defense Technical Information Center
Fort Belvoir, Virginia
4. Dudley Knox Library
Naval Postgraduate School
Monterey, California
5. Marine Corps Representative
Naval Postgraduate School
Monterey, California
6. Director, Training and Education, MCCDC, Code C46
Quantico, Virginia
7. Director, Marine Corps Research Center, MCCDC, Code C40RC
Quantico, Virginia
8. Marine Corps Tactical Systems Support Activity (Attn: Operations Officer)
Camp Pendleton, California